



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
ELLIOTT COUNTY SHERIFF**

Calendar Year 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
ELLIOTT COUNTY SHERIFF

Calendar Year 2001

The Auditor of Public Accounts has completed the Elliott County Sheriff's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Record Keeping:

The Sheriff's records were well organized and properly maintained.

Report Comments:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	9
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Honorable Ronnie Stephens, Elliott County Sheriff

Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Elliott County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the Elliott County Sheriff for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Ronnie Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated April 19, 2002, on our consideration of the Elliott County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 19, 2002

ELLIOTT COUNTY
 RONNIE STEPHENS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Fees For Services:

Finance and Administration Cabinet	\$ 1,545	
Cabinet For Human Resources	30	
Delinquent Tax	<u>62</u>	\$ 1,637

Circuit Court Clerk:

Sheriff Security Service	\$ 933	
Fines and Fees Collected	<u>110</u>	1,043

Fiscal Court		57,051
--------------	--	--------

County Clerk - Delinquent Taxes		1,306
---------------------------------	--	-------

Commission On Taxes Collected		41,860
-------------------------------	--	--------

Fees Collected For Services:

Auto Inspections	\$ 2,565	
Accident and Police Reports	227	
Serving Papers	2,460	
FADE Task Force - Overtime	5,856	
FADE Task Force - Overtime Matching	2,210	
Fees From Executions	1,200	
Carrying Concealed Deadly Weapon Permits	2,595	
Bond Refund	51	
Add-On Fees	6,200	
Sheriff Fee on Taxes	980	
Advertising Fees	660	
Miscellaneous	<u>28</u>	25,032

Interest Earned		<u>286</u>
-----------------	--	------------

Total Receipts		\$ 128,215
----------------	--	------------

ELLIOTT COUNTY
 RONNIE STEPHENS, SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 2001
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	18,063
Other Salaries		16,998
Overtime		8,051

Employee Benefits-

Employer's Share Social Security		5,965
Employer's Share Hazardous Duty Retirement		14,447

Contracted Services-

Advertising		925
Vehicle Maintenance and Repairs		134

Materials and Supplies-

Office Materials and Supplies		780
-------------------------------	--	-----

Other Charges-

Dues		625
Phone		1,405
Postage		620
Carrying Concealed Deadly Weapon Permits		1,695
Unemployment Insurance		447
Insurance		155
Training		488
Bonds		457
Execution Fees		1,200
Miscellaneous		114

Capital Outlay-

Office Equipment		179
------------------	--	-----

Total Disbursements		\$	72,748
---------------------	--	----	--------

Net Receipts		\$	55,467
--------------	--	----	--------

Less: Statutory Maximum			55,467
-------------------------	--	--	--------

Balance Due at Completion of Audit		\$	0
------------------------------------	--	----	---

The accompanying notes are an integral part of the financial statement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.78 percent for the first six months and 16.28 percent for the last six months of the calendar year.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Grants

The Office of the Elliott County Sheriff received \$8,066 as part of the Fivco Area Drug Enforcement (FADE) Task Force. These funds were used to pay salaries for the Sheriff's office. The grant balance is zero at December 31, 2001.

COMMENT AND RECOMMENDATION

ELLIOTT COUNTY
RONNIE STEPHENS, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

Calendar Year 2001

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- Reconciliation of reports to source documents and receipts and disbursements ledgers by the Sheriff
- All disbursement checks are to be signed by two people and one must be the Sheriff
- The Sheriff examines payroll checks prepared by an employee and distributes checks to employees
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office prepares bank reconciliations

County Sheriff Ronnie Stephen's Response:

We will consider all compensating controls for implementing.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Honorable Ronnie Stephens, Elliott County Sheriff

Members of the Elliott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Elliott County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated April 19, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
April 19, 2002

